

24 February 2020

Consumer Cyclical | Retailing

Sheng Siong (SSG SP)

Buy (Maintained)

More Grants From The Government; Keep BUY

Target Price (Return): SGD1.42 (+10%)
 Price: SGD1.29
 Market Cap: USD1,385m
 Avg Daily Turnover (SGD/USD) 1.79m/1.27m

- Maintain BUY with new TP of SGD1.42 from SGD1.39**, 10% upside plus c.3% yield. FY19 results were in line. 4Q19 headline number seemed weak, with PATMI down 0.8% due to a non-cash impact from SFRS16. Excluding this, 4Q19 PATMI grew 9.2% YoY to SGD19m, with FY19 PATMI rising 9.7% YoY to SGD77.4m. We expect grocery sales to remain resilient amidst the COVID-19 outbreak.
- FY19 revenue rose 11.3%**. Bulk of the growth was driven by the 15 new stores (opened in FY18-19), while SSSG was flattish. But we note that SSSG turned positive in 4Q19 suggesting improvement in consumer sentiment across 2019. Moving into 2020, we think overall consumer sentiment could be impacted due to the COVID-19 outbreak. But grocery sales should remain resilient as people avoid outdoor gatherings and dining out. The panic buying caused by the Government raising the Disease Outbreak Response System Condition (DORSCON) alert level from Yellow to Orange should give a boost 1Q20 revenue.
- Closure to GPM expansion story**. We believe we have reached the tail end of Sheng Siong's GPM expansion story. For FY19, GPM was fairly stable at 26.9%, +0.1ppt. While the group warehouse expansion gave it 20% additional capacity to take on bulk-handling, the efficiencies and higher suppliers' rebates were offset by higher input prices of pork brought by the African Swine Fever (ASF). We do not expect much increase in GPM from here onwards.
- Earnings boost from additional grant by the Government...** Sheng Siong expects to receive SGD1.8m additional grant from the Job Support Scheme and Housing Development Board half a month of rental waiver while the wage credit scheme, which amounts to c.SGD1m, was enhanced and extended to 2020.
- ...but offset by higher effective tax rate**. Still, the positive benefit from the grant is offset by the higher effective tax rate. In FY19, Sheng Siong's effective tax rate increased 0.9ppt to 17.6%. Management cited that the lower tax rate in earlier years was due to tax incentives from productivity investment. In the absence of these incentives, we now expect the company's tax rate to trend back up to 18% over the next three years.
- New stores**. The group has opened two stores in 1Q20 and put in bids for four new stores. We expect to know the results by the next quarter. For the full-year, we expect the group to open 4-5 new stores. Our earnings forecasts remain largely unchanged as the additional grant is offset by higher taxes. We raise our TP to SGD1.42 as declining government bond yields in Singapore lower our risk-free rate assumptions.

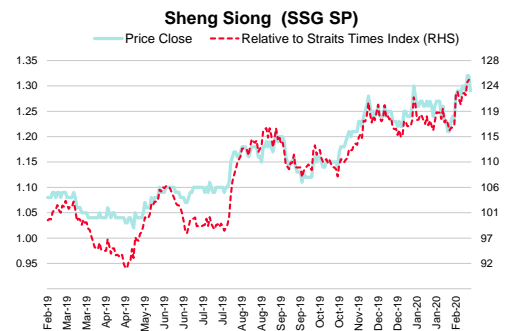
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.0	4.0	4.0	9.3	19.4
Relative	4.8	5.5	3.8	6.9	21.8
52-wk Price low/high (SGD)				1.02	1.32



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	891	991	1,069	1,121	1,166
Recurring net profit (SGDm)	71	76	85	91	95
Recurring net profit growth (%)	4.7	7.0	12.0	7.4	4.4
Recurring P/E (x)	27.40	25.61	22.87	21.29	20.39
P/B (x)	6.7	6.2	5.7	5.3	4.9
P/CF (x)	21.03	16.53	17.96	15.72	15.67
Dividend Yield (%)	2.6	2.8	3.1	3.3	3.4
EV/EBITDA (x)	18.50	16.86	14.37	13.25	12.44
Net debt to equity (%)	(29.8)	(24.2)	(33.6)	(44.6)	(53.4)

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	0.05	0.05	0.06	0.06	0.06
Consumer Cyclical	DPS	0.03	0.04	0.04	0.04	0.04
Sheng Siong	BVPS	0.19	0.21	0.23	0.24	0.26
SSG SP						
Buy	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	27.40	25.61	22.87	21.29	20.39
Valuation basis	P/B (x)	6.7	6.2	5.7	5.3	4.9
Blended DCF and P/E	FCF Yield (%)	3.3	3.3	5.0	5.8	5.8
	Dividend Yield (%)	2.6	2.8	3.1	3.3	3.4
Key drivers	EV/EBITDA (x)	18.50	16.86	14.37	13.25	12.44
New store openings and SSSG	EV/EBIT (x)	22.13	20.15	17.62	16.21	15.23
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	891	991	1,069	1,121	1,166
i. High capex if Sheng Siong expands via purchase of retail stores;	Gross profit	238	267	289	304	316
ii. Inability to find affordable areas to lease;	EBITDA	100	111	127	134	139
iii. Price war from competitors.	Depreciation and amortisation	(16)	(18)	(23)	(24)	(26)
	Operating profit	84	93	104	110	114
Company Profile	Net interest	1	(1)	(1)	0	1
With 61 stores located in suburban areas, Sheng Siong operates the third-largest supermarket chain in Singapore that caters to the country's mass market.	Pre-tax profit	85	92	103	110	115
	Taxation	(14)	(16)	(18)	(20)	(21)
	Reported net profit	71	76	85	90	94
	Recurring net profit	71	76	85	91	95
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	6.9	(2.2)	(0.3)	8.6	4.3
	Cash flow from operations	92.2	117.3	108.0	123.4	123.8
	Capex	(27.9)	(53.5)	(10.6)	(10.6)	(10.6)
	Cash flow from investing activities	(27.0)	(52.2)	(10.6)	(10.6)	(10.6)
	Dividends paid	(51.1)	(52.6)	(59.4)	(63.1)	(65.7)
	Cash flow from financing activities	(51.1)	(75.9)	(59.4)	(63.1)	(65.7)
	Cash at beginning of period	73.4	87.2	76.4	114.4	164.1
	Net change in cash	14.1	(10.8)	38.0	49.6	47.4
	Ending balance cash	87.6	76.5	114.4	164.1	211.5
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	87	76	114	164	212
	Tangible fixed assets	266	295	282	269	254
	Total assets	436	533	569	603	638
	Total liabilities	144	217	228	235	242
	Total equity	292	315	341	368	396
	Total liabilities & equity	436	533	569	603	638
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	7.4	11.3	7.8	4.9	3.9
	Recurrent EPS growth (%)	4.7	7.0	12.0	7.4	4.4
	Gross margin (%)	26.8	26.9	27.0	27.1	27.1
	Operating EBITDA margin (%)	11.3	11.2	11.9	12.0	11.9
	Net profit margin (%)	7.9	7.6	7.9	8.0	8.0
	Dividend payout ratio (%)	72.2	70.5	70.0	70.1	70.1
	Capex/sales (%)	3.1	5.4	1.0	0.9	0.9
	Interest cover (x)		46	51	54	56

Source: Company data, RHB

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Figure 1: FY19 results summary

(SGDm)	4Q19	3Q19	4Q18	QoQ (%)	YoY (%)	FY19	FY18	YoY (%)	Comments
Revenue	247.9	253.8	221.8	(2.4)	11.8	991.3	890.9	11.3	Largely driven by 15 new stores opened throughout 2018-2019 and small recovery in SSSG.
SSSG	1.8%	-0.3%	-2.7%			0.1%	1.7%		
New store growth	8.6%	10.4%	14.7%			10.2%	10.1%		
Growth from China	1.4%	1.3%	0.8%			1.0%	1.0%		
Gross profit	67.4	68.7	60.2	(1.9)	12.0	266.9	238.4	11.9	GPM grew 1ppt, we believe GPM has peaked.
Gross margin	27.2%	27.1%	27.1%			26.9%	26.8%		
Pretax profit	21.4	25.0	20.8	(14.4)	2.9	91.9	84.7		Excluding SFRS16, 4Q19 PATMI grew SGD19m while FY19 PATMI was SGD77.4m
Pretax margin	8.6%	9.9%	9.4%			9.3%	9.5%		
Core net profit	17.4	20.6	17.5	(15.5)	(0.8)	75.7	70.8	7.0	
Net margin	7.0%	8.1%	7.9%			7.6%	7.8%		

Source: Company data, RHB

Figure 2: TP derivation

DCF valuation						
(SGD m)	FY20F	FY21F	FY22F	FY23F	FY24F	
Net Income	84.8	91.1	95.1	101.4	105.17	
+ Non-Cash Charges	23.5	24.5	25.5	25.5	25.5	
+ Fixed Capital Investment	(10.6)	(10.6)	(10.6)	(10.0)	(10.0)	
+ Change in net working capital	(0.3)	8.6	4.3	0.0	0.0	
+ Change in debt	0.0	0.0	0.0	0.0	0.0	
FCFE	97.4	113.6	114.3	116.9	120.7	
Terminal Value						2399.2
PV	97.4	107.1	101.6	97.9	1990.0	
Total discounted FCFE	2394.0					
Value/Share (SGD)	1.59					
Cost of equity	6.1%					
Risk free rate	1.7%					
Beta	0.6					
Market return	9.0%					
Terminal growth	1.0%					
Relative valuation						
Average forward P/E	22					
Value/share (SGD)	1.24					
RHB target price (average of relative and DCF valuation)						
	1.42					

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-12-10	Buy	1.39	1.26
2019-10-31	Buy	1.32	1.17
2019-07-30	Buy	1.32	1.15
2019-04-30	Buy	1.23	1.03
2019-03-15	Buy	1.25	1.09
2019-02-27	Buy	1.25	1.09
2018-11-01	Buy	1.27	1.05
2018-10-31	Buy	1.30	1.08

Source: RHB, Bloomberg

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